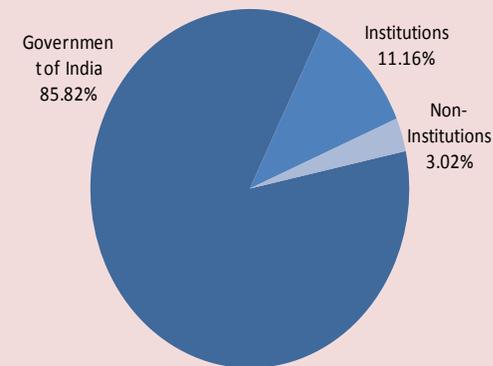


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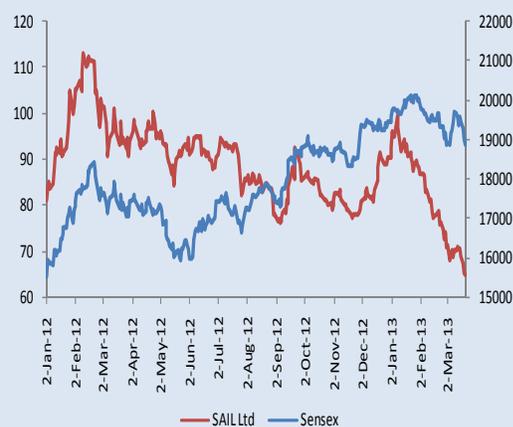
Market Data

Current Market Price (CMP)	64
52 Week High	102
52 Week Low	64
Market Cap (INR in Cr)	26435



Stock Scan

Scrip ID	SAIL Ltd
Scrip Code (NSE)	SAIL
Scrip Code (BSE)	500113
Bloomberg Ticker	SAIL IN
Reuters Ticker	SAIL.BO
Industry	Steel & Steel Products
Face Value	INR10 per Share
Equity Share Capital (INR in Cr)	4,130.53
Avg 5 years P/E	11x
Avg daily volume (Last 1 Year)	3,123,433
Beta Vs Sensex	1.27
Dividend Yield	3.77%



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Sector – Steel & Steel products

Steel Authority of India Ltd (SAIL) is the largest steel producer in India, with ~20% market share. Its current capacity of 13MTPA is vertically integrated from mines to finished steel and is spread across four plants in the mineral-rich belt of Chhattisgarh, Orissa and Jharkhand. SAIL is totally self sufficient in iron ore (captive mines). Government of India proposes to sell 24.04 cr equity shares of face value of INR10/- each, representing 5.82% of the total equity share capital of the company. At the floor price of INR63 per share, the government will be able to raise around INR1514 cr through the issue. We recommend a **“SUBSCRIBE”** to the stock at the floor price of INR63 per share. The stock is trading at attractive valuations as compared to its domestic peers, which possess an average P/E of 13.6x. We believe that risk reward is very favorable at current valuations with key triggers being company planning a capex of INR70000 cr for doubling the capacity from 13MT to 24MT of which major expansion of INR62000 cr is likely to be completed by FY14e, hike in steel prices leading to improved realizations, improvement in steel demand scenario and softening of coking coal prices.

Issue Details

The OFS comprises an offer for sale of 24.04cr equity shares of face value INR10/- each. SAIL has fixed the issue price at INR63 per share.

The OFS would take place through a separate window of stock exchange (Bidding) on 22nd March, 2013 from 9.15am to 3.30pm.

The stake sale would be take place through the six appointed merchant bankers:

1. Axis Capital
2. Deutsche Equities India Private Ltd
3. SBICAP Securities Ltd
4. HSBC Securities and Capital Markets (India) Private Ltd
5. JP Morgan India Pvt Ltd
6. Kotak Securities Ltd

Allocation Methodology:

1. 25% Minimum OFS reserved for Institutions/MF's
2. The allocation shall be on price priority method at multiple clearing prices (meaning higher bids will be offered the shares first) in accordance with the SEBI OFS Circular. Refer to the attached OFS Circular for further details

Exhibit 1: SAIL Ltd Consolidated Financial Performance (INR in Crore except per share data and %)

Particulars	FY10A	FY11A	FY12A	FY13E	FY14E	FY15E
Net Sales	41263	43258	46421	45442	51890	59078
Growth (%)	-5.59%	4.83%	7.31%	-2.11%	14.19%	13.85%
EBITDA	10160	7833	6403	5919	7512	9886
EBITDA Margin (%)	24.62%	18.11%	13.79%	13.02%	14.48%	16.73%
Consolidated Net Profit	6851	4890	3855	2976	3341	4337
Net Profit Margin (%)	16.60%	11.30%	8.30%	6.55%	6.44%	7.34%
Net Profit Growth(%)	26.94%	-28.62%	-21.17%	-22.80%	12.26%	29.81%
EPS	16.59	12.14	8.70	7.38	8.26	10.49
P/E(x)	15.18	13.98	10.81	8.67	7.75	6.10
P/BV(x)	3.08	1.86	0.96	0.62	0.58	0.54
ROE(%)	22.03%	14.05%	9.23%	7.07%	7.45%	8.59%
EV/EBITDA(x)	8.11	7.72	6.19	6.43	5.07	3.85

Source: Company Data, Microsec Research

Peer Comparison

Domestic Peer Comparison

Particulars (INR in Crores)	CMP	M-Cap	FY12 Sales	FY12 EBITDA	FY12 EBITDA Margin (%)	FY12 PAT	FY12 PAT Margin (%)	FY12 EPS	Current P/E (x)	FY13E P/E(x)	Current P/BV (x)	FY12 EV/EBITDA(x)	FY13E EV/EBITDA(x)	ROE FY12	FY13E ROE	Net Worth FY12	Total Debt FY12	D/E FY12
SAIL Ltd	64	26435	46421	6403	13.8%	3855	8.3%	8.7	7.4	8.7	0.66	6.19	6.43	9.2%	7.1%	40273	16999	0.42
TATA Steel Ltd	328	31817	132257	12417	9.4%	5390	4.1%	54.3	6.0	18.6	0.78	6.78	6.47	13.7%	3.0%	22814	54228	2.38
JSW Steel Ltd	624	13930	34124	6115	17.9%	538	1.6%	22.7	27.5	9.0	0.78	5.38	4.44	3.3%	9.0%	9257	16173	1.75
Jindal Steel & power Ltd	341	31906	18209	7109	39.0%	3965	21.8%	42.4	8.0	8.2	1.76	9.34	7.36	24.6%	18.6%	10417	8604	0.83
Bhushan Steel Ltd	455	10302	9643	3111	32.3%	1015	10.5%	47.1	9.7	9.7	1.25	9.89	9.20	14.1%	12.6%	3996	11404	2.85
Average									13.6	12.1	1.04	6.12	5.78	8.7%	6.3%			

Note: All figures are on Consolidated basis

Valuation on TTM Basis

SAIL Ltd is trading at almost near to its 5-year historic low of INR55 per share. We believe that risk reward is very favorable at current valuations with key triggers being company planning a capex of INR70000 cr for doubling the capacity from 12MT to 24MT of which major expansion of INR62000 cr is likely to be completed by FY14e, hike in steel prices leading to improved realizations, improvement in steel demand scenario and softening of coking coal prices.

At CMP of INR64 per share, SAIL is trading at a P/E multiple of 8.01x its TTM EPS of INR7.99 and EV/EBITDA of 6.84x its TTM EBITDA of INR5377 crore.

At the floor price of INR63 per share, which is at 1.59% discount on the closing price of 21st March, 2013 (INR64 per share), the stock trades at a P/E multiple of 7.88x its TTM EPS of INR7.99 and EV/EBITDA of 6.76x its TTM EBITDA of INR5377 crore.

We recommend a "SUBSCRIBE" to the stock at the floor price of INR63 per share. The stock is trading at attractive valuations as compared to its domestic peers, which possess an average P/E of 13.6x.

Particulars	Current Price	Floor Price	Discount Offered
Price	64	63	1.59%
P/E(x)	8.01	7.88	
EV/EBITDA(x)	6.84	6.76	

Particulars	Pre-issue		Post-Issue	
	No. of shares (Crore)	%	No. of shares (Crore)	%
Promoter and promoter group	354.48	85.82	330.44	80.00
Total public holding	58.57	14.18	82.61	20.00
Total	413.05	100	413.05	100

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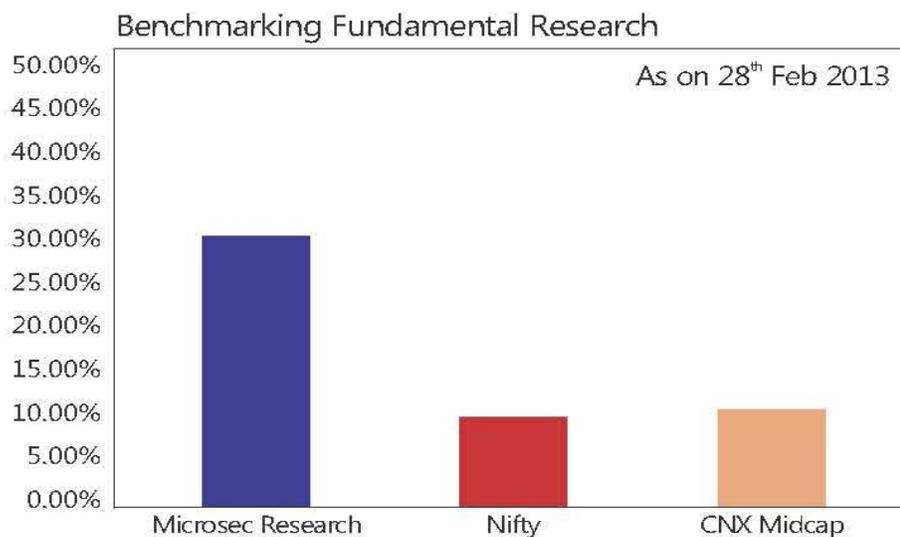
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Recommendation	Expected absolute returns (%) over 12 months
Strong Buy	>20%
Buy	between 10% and 20%
Hold	between 0% and 10%
Underperform	between 0% and -10%
Sell	< -10%

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